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## *Introduction*

Cyprus is one of the main centres for shipping services in the world. It currently ranks 6th according to the Lloyd's Register list of leading maritime nations with around 1407 vessels under the Cyprus flag, totalling around 23 million gross tonnage.

Cyprus has many advantages to offer as a maritime centre. It has a well established maritime infrastructure and offers substantial tax incentives for the shipping industry. Also, it is a member of the International Maritime Organisation (the "IMO"), the Council of Europe, the Commonwealth and many other international organizations. It is a signatory to many international maritime conventions and has concluded bilateral agreements of co-operation in merchant shipping and double tax treaties with a large number of countries. A significant number of Cyprus vessels are managed from ship management companies operating from fully manned offices on the island.

Cyprus' accession to the European Union on 1 May, 2004 has boosted the registration of vessels under the Cyprus flag. On the date of accession, some 25% of the EU fleet fell under the Cyprus flag.

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## *Administrative and Legal Framework*

### **Maritime Administration**

All maritime matters are under the jurisdiction of the Ministry of Communications and Works (the "Ministry"). The Ministry exercises its authority through the Department of Merchant Shipping. The Department of Merchant Shipping deals with registration of ships, administration and enforcement of merchant shipping legislation, control of shipping and enforcement of international conventions, investigation of marine casualties, resolving labour disputes on board Cypriot ships and training and certification of seafarers.





### Legal Framework

Shipping legislation in Cyprus is essentially based on the British model. The Register of Cyprus Ships is regulated by the Merchant Shipping

(Registration of Ships, Sales and Mortgages) Laws 1963-1996. These correspond to the British Merchant Shipping Acts 1894-1954. The other principal merchant shipping laws are the Merchant Shipping (Masters and Seamen) Laws 1963-2002 and the Merchant Shipping (Fees and Taxing Provisions) laws 1992-2003.

Cyprus shipping companies are regulated by Chapter 113 of the Statute Laws of Cyprus (as amended) which is, again, modelled on the UK Companies Act, 1948.

Cyprus is a signatory and has ratified the major international conventions on maritime safety, prevention of pollution of the sea, training certification and watch keeping of seafarers and limitation of ship owner's civil liability in case of oil pollution damage and conventions on maritime labour. It has also concluded double tax treaties and bilateral agreements with a large number of countries for the avoidance of double taxation and enhancement of co-operation in the field of merchant shipping. These agreements provide additional financial advantages, tax incentives and advantages on the engagement of foreign seafarers on board Cypriot ships.

### Banking and Finance

Commercial and banking arrangements and practices in Cyprus follow the British model. There is a strong correspondence network with international banks. Cyprus also enjoys a well developed insurance industry and all types of risk are accepted, mainly through agents and intermediaries.





## *The Cyprus Shipping Company*

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### **Legal Status**

A non-resident wishing to register a ship under the Cyprus flag must form a Cyprus Shipping Company (the “Company”). The Company will acquire the vessel in its name. It will be registered as a private company with limited liability (by shares).

To incorporate the Company, one must file the memorandum and articles of association (both must be in Greek) with the Registrar of Companies. On formation of the Company, the Registrar of Companies will issue a certificate of incorporation. Upon issue of the certificate, the company may begin to trade and register a ship in its name.

It usually takes 3 days from the filing of the Company’s incorporation documents to incorporate the Company. However, the process can be accelerated on request. Only local lawyers can draft the necessary documents for the incorporation of Cyprus companies.

### **Non Resident Status**

A non-resident company may buy vessels from, or sell them to, nonresidents without any exchange control approval. It is not necessary to keep a bank account in Cyprus. However, the company may open an external account with a commercial bank in Cyprus (in any currency). The deposits in such an account are freely transferable and fully convertible into other currencies.

### **Company Formation**

- Name of company. The name must end with the word ‘limited’ and must be approved by the Registrar of Companies. Broadly speaking, very general or deceptive names or names that are likely to lead to confusion with existing ones will not be approved. It usually takes 4 days to obtain approval for the Company’s name but the process can be accelerated on request.





- Registered address. This must be in Cyprus. Where the Company does not have offices on the island, it is usual practice for the registered address to be the address of the lawyers or accountants who act for the company on the island. The registers and minute books are kept with the secretary.
- Share Capital. The share capital may be nominal. It may be paid up in full or by calls and this can be done in cash or for other consideration. The shares may be allotted a par value. Any class of share is acceptable (ordinary, preference and with different voting and dividend rights). All shares must be nominative. Bearer shares are unacceptable. A typical Cyprus ship owning company has a nominal share capital of CY 1000 divided into 1.000 of CY 1 each.
- Shareholders. The Company must have a minimum of 1 shareholder. Nationality is immaterial. The shareholder/s may all be foreigners residing outside the island. Foreign individuals and corporations require exchange control permission in order to subscribe to or hold shares in a Cyprus company. The transfer of shares to and from foreigners also requires authorization. For shipping companies, such permission is usually given as a matter of course in all bona fide cases.

Trust relationships are recognized under Cyprus law both by statute and in equity. The law corresponds to the regime in the English legal system. The security documentation of the beneficial owner usually comprises of:

- the trust deed;
- the original share certificates that are issued in the names of the nominee shareholders;
- an instrument of transfers of shares executed in blank, directors' resolutions approving the transfer of shares (where nominee directors are appointed);
- undated letters of resignation of the nominee directors, and
- Irrevocable dividend mandates for payment of dividends to the beneficial owners or to an account designated by them.

General meetings of the company may be held abroad and, as a rule written resolutions signed by all the shareholders will suffice in lieu of a meeting. Annual general meetings must be held every year, the first to be held within 18 months from incorporation.





- Directors. One or more directors may be appointed. Their nationality is immaterial. There is no obligation to have local directors. Directors are appointed and removed by the shareholders. A class of shares may be given special rights in this respect. Board meetings can be held in any country. Directors' resolutions may be taken either at a duly convened meeting or without a meeting provided that the resolutions are signed by all the directors. The names of the directors are submitted to the Registrar of Companies and are kept on a public record.
- Secretary. The secretary is appointed by the directors and is removable by them. There are no restrictions on who may be appointed as a secretary, however, it is practical for the secretary and the directors to reside in the same country (to facilitate the holding of board meetings) and for an assistant secretary to be appointed in Cyprus to attend to the Company's annual formalities on the island. A director may also act as secretary.
- Returns. Annual returns showing the names of the shareholders must be filed with the Registrar of Companies. Any charges against the company must also be filed and registered. The Registry is a public record open to inspection.
- Procedure for incorporation.

A limited liability company can be incorporated in one of the following ways:

- by the actual shareholders appearing as subscribers to the memorandum and articles of association and signing the same, or
- By two Cypriot nominees (usually the company's lawyers) subscribing to the memorandum and articles of association and later transferring their subscription shares to the actual shareholders by instruments of transfer.

To proceed with the formation of a Cyprus shipping company, the following information is required:

- the desired company name;
- the amount of authorized share capital;
- whether shareholders will subscribe to the memorandum and articles of association themselves or through nominees;





- whether shares will be held in trust for Cypriot nominees;
- the name, address, nationality and occupation of beneficial shareholders;
- the name, address, nationality and occupation of directors, and
- The name and address of the secretary.
- Auditors and accounts.

They are appointed at the Company's Annual General Meeting and are removable in the same way. Any auditor who is entitled to audit an English company is acceptable.

Unless a company is exempt, it must file annual accounts with the Registrar of Companies. A company is exempt if it does not have another company as a shareholder. As the Register of Companies is a public record, if a company wishes to avoid its accounts being open to inspection, then it must have physical persons as shareholders.

In the case of a foreign owned shipping company, the books may be kept abroad and denominated in any currency.

**Costs**

The fees payable on incorporation of a company are:

Nominal Capital (CY£)	Fee (CY£)
Up to 5 000	75
5 001-10 000	125
10 001-8 000 000	125*
Over 8 000 000	24 098

\*Plus CY£30 for every CY£100 of nominal capital or part thereof in excess of CY£ tThere are no annual fees in order to keep the company in good standing and operative but there is a stamp duty of CY£7 for filing annual returns.







There are charges for the registration of mortgages against the company with the Registrar of Companies. There are also stamp duties payable for the filing of other returns, documents and charges. On winding up of a company, the official fees are CY£75.

### *Registration of Ships*

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#### **Conditions of Ownership and Types of Registration**

A vessel may be registered under the Cyprus flag if more than one half of the shares in the ship are owned by:

- A Cypriot, or
- a corporation established and operating under and in accordance with the laws of the Republic of Cyprus and having its registered office in the Republic; or
- A corporation incorporated outside the Republic in which the controlling interest is vested in Cypriots (physical persons), if specially authorized by a decision of the Council of Ministers of the Republic.

This is why, all non-Cypriot owners who wish to register their ships under the Cyprus flag must incorporate a company in Cyprus. The Company which will either acquire the ship in its name, or bareboat charter the ship.

The main types of vessel registration in Cyprus are provisional, permanent and parallel registration.

All documents which refer to Cypriot ships must be drawn up in a language comprehensible to the competent officers under the law. This provision makes the registration of vessels faster and saves on translation expenses as the documents do not have to be in Greek. In practice, most of the documents are admissible in English.





### Age Limits

The age of a vessel is calculated by deducting the year when its keel was laid from the year when the application for registration of the vessel was filed with the Registrar of Cyprus Ships. The year of conversion or modification or major reconstruction and the year of completion or delivery of a vessel, are considered irrelevant and will be ignored.

#### Vessels are divided into two main categories according to their age:

- Vessels of less than 15 years of age. Vessels of any size and type (except fishing vessels) having an age not exceeding 15 years may be registered under the Cyprus flag as long as they comply with the provisions contained in the merchant shipping legislation and the circulars of the Department of Merchant Shipping.
- Vessels over 15 years of age. Vessels over 15 years of age, including fishing vessels, may be registered in the Cyprus Register of Ships under additional conditions. These conditions must be met concurrently with the submission of the application for registration and must be complied with at all times while the vessel remains registered, irrespective of any subsequent transfer of ownership.

### Tonnage Particulars

- Cargo vessels with gross tonnage of 1000 and over, oceangoing tug boats with gross tonnage of over 500 and mobile offshore drilling.
  - i) Over 15 years but not exceeding 17 years of age - vessels in this category may be registered provided they pass a special inspection;
  - ii) Over 17 years but not exceeding 20 years of age - a vessel in this category may be registered provided it passes a special inspection and is operated by a ship management company certificated for compliance with the ISM Code;
  - iii) Over 20 years but not exceeding 23 years of age – a vessel in this category may be registered provided it passes a special inspection and is subject to subsequent annual special inspections. It must also be operated by a Cyprus ship management company, which is certificated for compliance with the ISM Code.





- Cargo vessels with a gross tonnage of less than 1000. Only cargo vessels not exceeding 20 years of age may be registered. However, they are subject to a special inspection if they are subsequently detained on account of deficiencies or violations of international conventions by flag or port state control authorities.

#### **Passenger Vessels, Fishing Vessels and Pleasure Craft**

##### **Passenger Vessels**

- Over 15 years but not exceeding 25 years of age – a vessel in this category may be registered provided it passes a special inspection and is subject to subsequent annual special inspections;
- Over 25 years of age - A vessel in this category may be registered provided it passes a special inspection and is subject to subsequent annual special inspections and it is operated by a Cyprus ship management company, which must be certificated for compliance with the ISM Code.

In both cases, whenever the vessel is engaged in regular service, which includes at least two calls per month to a Cypriot port, at least 25 percent of its crew should be Cypriot. This requirement can be waived if a confirmation is given by the Limassol District Labour Office that no Cypriot seamen are available. Also, in that case, the vessel must engage at least 1 Cypriot student or graduate of a Marine Officer's School, if available for sea training for a period of up to 6 months.

##### **Fishing Vessels, Fish Factory Vessels**

There are detailed requirements for the registration of fishing and fish factory vessels of any age covering ownership, safety, fishing activities and hygiene. Further information can be obtained from the Department of Merchant Shipping.

##### **Auxiliary Vessels and Pleasure Craft**

- Vessels up to 25 years of age may be registered without any additional conditions;
- Vessels over 25 years of age may be registered provided they belong beneficially to residents of Cyprus and their management and operations are controlled from Cyprus.

Further information can be obtained from the Department of Merchant Shipping.





### **Ownership**

Applications for registration must be accompanied by all relevant documentary evidence attesting compliance with the various conditions that need to be fulfilled at the time of the provisional registration (or the directly permanent registration, as the case may be.).

Residents of Cyprus, for the purposes of this policy, include:

- Cypriot citizens, and;
- Persons who have had their ordinary residence in Cyprus for the last 12 months have been issued with a work permit and are liable to Cyprus income tax.

### **Special Inspection**

Where a special inspection is required, it is carried out by the surveyors of the Department of Merchant Shipping at the expense of the shipowner. The inspection of the ship should be carried out before its provisional or directly permanent registration. If this is not practically possible, it should be conducted within 3 months from the date of provisional or parallel-in registration, or within 1 month from the date of permanent registration, if affected directly.

### **Management and Operation – ISM Code Requirements**

The information about the management and operation of a vessel is shown on the Joint Declaration on the Operation of a Ship. A vessel is considered as managed and operated by a ship management company if that company holds, or is issued with, a valid Document of Compliance (the “DoC”) or Interim DoC. In addition, the vessel is issued with a Safety Management Certificate (the “SMC”) or Interim SMC indicating that it is operated by the company in question. The Doc and SMC must be issued either by or on behalf of the Cyprus government.

All vessels, irrespective of type, of 500 gross tonnage and upwards must hold a valid SMC. The management companies must hold a valid DoC.





### **Inspectors**

Cyprus has established a worldwide network of inspectors of Cyprus ships. They verify and enforce compliance, by Cyprus ships, with national and international maritime legislation on matters of safety, pollution prevention and the living and working conditions on board Cyprus ships. Some of these inspectors are also authorized to perform inspections. The number of inspectors is increasing every year. The government aims to be able to perform inspections in all major ports in the world. Currently, there are inspectors in around 30 ports, including Buenos Aires, Rio de Janeiro, Vancouver, Hamburg, Piraeus, Calcutta, Osaka and Singapore.

### *Provisional and Permanent Registration*

All applications for the registration of ships under the Cyprus flag must be made by a local lawyer to the Ministry of Communications and Works through the Registrar of Cyprus Ships. The Registrar will accept applications to register ships when the Company is still under formation so that the incorporation of the Company and the registration of the ship can progress simultaneously. However, the Company must be duly incorporated before the registration of the vessel can take place.

#### **Provisional Registration**

If at the time of registration to the Cyprus Ship Register, a vessel is situated at a port outside the Republic of Cyprus and provided that it is not already a Cypriot ship, then it will be provisionally registered first. Once the vessel is provisionally registered, the owner must proceed with the permanent registration within 9 months (including the 3 month extension period available for provisional registration).

A ship may be provisionally registered under the Cyprus flag at any diplomatic mission or consular post of the Republic of Cyprus abroad. The officer effecting the registration will act on the instructions issued by the Registrar of Cyprus Ships. At the time of provisional registration, the ship must be at a port so that she may be surveyed and certified on





behalf of the Cyprus government. It is not necessary for the ship to be at the port as the one where the provisional registration is taking place.

#### **Application for Provisional Registration**

In applying to the Registrar for provisional registration, the following information is required:

- name and flag of vessel at the time of application;
- name of Cyprus company applying for the registration;
- name under which vessel will be registered;
- particulars of vessel (type, year of built, gross and net tonnage);
- Name of the classification society with which the ship is entered. If the new owners intend to change the classification society, this should also be stated;
- intended trading area for the vessel
- If known, place where the ship will be at the time of her provisional registration. In any case, this information must be communicated to the Registrar prior to the time of provisional registration;
- name of consular officer who will effect the provisional registration; and
- Name and address of the shareholders and directors of the Cypriot company in whose ownership the vessel will be registered.

#### **Change of Name**

If the ship's name will change, there must be a period of 7 days between the day when the application is submitted and the day on which the ship may actually be registered and her name changed.

#### **Registration Particulars**

The following are also requirements that have to be met before the consular officer can proceed with the provisional registration:

- The vessel must be classed with one of the classification societies that the Cypriot government recognizes;





- The vessel must be covered by one of the radio traffic accounting authorities that the Cypriot government recognizes. All maritime radio communications accounts must be paid by an accounting authority. Payments made directly through land earth stations or international service providers are not allowed; and
- For the purpose of activation and deactivation of maritime mobile earth stations, vessels should nominate their preferred PSA. This must again be one that the Cypriot government recognizes.

#### **Supporting Documentation**

Together with the application for the registration of the vessel, the Registrar requires some additional supporting documentation. These must be submitted prior to the issuing of the instructions for the provisional registration of the vessel but not necessarily at the same time as when the application is submitted. They are:

- copies of the memorandum and articles of association of the Company in whose ownership the vessel will be registered;
- copy of the certificate of incorporation of the company;
- copies of the certificates of shareholders, directors and secretary of the company;
- Confirmation of class of the vessel. This confirmation must include a statement that the society is ready to proceed with a survey and certification of the vessel on behalf of the Cyprus government. (Any recommendations that may arise as a result of the survey must be dealt with). The societies have been instructed, at the time of provisional registration under the Cypriot flag, not to issue to ships any statutory certificates that list outstanding recommendations of whatever nature; and
- Confirmation from the radio traffic accounting authority that will cover the vessel whilst under the Cyprus flag, that a contract has been signed between them and the owners of the vessel providing for the settlement of the ship's radio traffic accounts with the telecommunications authorities of the different countries which may serve her.

If the vessel is over 15 years old, there are additional requirements and conditions to be met imposed by the Department of Merchant Shipping before registration can proceed.





### Instructions for Provisional Registration

On receiving all the necessary documentation, the Registrar will instruct the consular office to proceed with the provisional registration of the vessel. The consular officer will need the following documents before he can proceed with the registration:

- directors' resolutions of the Cyprus company resolving to acquire the vessel and register her under the Cypriot flag and the appointment of one or several attorneys who will appear before the consular officer for matters concerning the registration;
- Power of attorney expressly authorising those who will be acting for the Company on matters concerning the registration. The power of attorney must be executed pursuant to the resolutions described in paragraph (i) above and under the common seal of the company. It must be signed by one or two directors (depending on the provisions regarding this in the company's articles of association) and must be either notarially attested or legalized by a Cyprus consular officer;
- declaration of ownership;
- memorandum of appointment of ship's husband;
- Bill of sale duly executed by the registered owners. This must be certified by the consular authorities of the country of the previous registry;
- certificate of ownership and encumbrances from the ship's previous registry attesting that the ship is free of encumbrances and that she may be transferred to another registry; and
- Application for licence to install and work a wireless telegraphy and/or telephony station on board ship under Cyprus flag.

### Completion of Provisional Registration

Provided that all the appropriate fees have been paid and all the necessary documents submitted, the consular officer instructed to carry out the ship's provisional registration will proceed to:

- Issue a provisional certificate of the Cyprus registry. This is valid for 6 months from the date of issue;
- issue a provisional radio license, and
- Advise the vessel's classification society to proceed with the survey and certification of the vessel on behalf of the Cyprus government.







The ship must not leave the port where she is lying until she has been duly surveyed and certified.

The ship's provisional registration may be extended for another 3 months provided that the appropriate fees have been paid. The application for the extension must be submitted by a local lawyer on behalf of the ship-owner. The application must name the consular officer to whom the provisional certificate will be presented for extension. On approving the application, the Registrar of Cyprus Ships will instruct the consular officer to effect the necessary endorsement of the provisional certificate.

### **Permanent Registration**

#### **Application and Documentation**

To permanently register a vessel, the following documents must be submitted to the Registrar of Cyprus Ships:

- application for permanent registration made by the local lawyer acting on behalf of the Company to the Ministry through the Registrar of Cyprus Ships, requesting the permanent registration of the vessel in the Register of Cyprus Ships;
- certificate of deletion of the vessel from the previous register or certificate of cancellation of registry or closed transcript of registry, if this was not filed at the time of provisional registration;
- copy of the agreement signed with the vessel's radio traffic accounting authority;
- certificate of survey;
- Cyprus tonnage certificate;
- international tonnage certificate;
- duly verified ship's carving and marking note;
- copies of the ship's statutory certificates as these apply to the ship's type and size, ie:
  - i) cargo ship safety construction;
  - ii) cargo ship registry equipment;
  - iii) cargo ship safety radio;
  - iv) international load lines certificate (1966);
  - v) international oil pollution prevention;





- vi) international noxious substances pollution prevention;
- vii) passenger ship safety, and;
- viii) Certificate of fitness.

If the vessel is over 15 years of age the requirements or conditions under which her registration has been approved must also be complied with.

#### **Deletion**

##### **Ship's Tonnage, Carving and Marking**

The certificate of survey and the Cyprus tonnage certificate or international tonnage certificate are prepared by any one of the classification societies recognised by the Cypriot government or by the Department of Merchant Shipping.

On receiving the above forms the Registrar allots to the ship her official number and issues, to the owner, the ship's carving and marking note. The owner must then instruct a surveyor of ships (surveyors of any of the recognised and authorized classification societies or of the Department of Merchant Shipping) to inspect the ship's carving and marking. On the surveyor completing the survey, the owner will return the carving and marking note to the Registrar so as to proceed with the permanent registration of the vessel.

##### **Certificate of Cyprus Registry**

On receipt of all the documents set out above, and provided that the appropriate fees have been paid, the Registrar will proceed with the permanent registration of the vessel and issue a certificate of Cyprus Registry.

A Cypriot ship must be deleted from the Cyprus Registry as soon as more than half of its shares are sold or transferred to a person or company not entitled to own them under Cyprus law. The deletion of a ship does not require an export license.

As soon as the registered mortgages and other encumbrances are discharged and all matters pending with the Registry, including financial obligations, are settled, a deletion certificate or a closed transcript of registry is issued.





## *Parallel Registration*

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### **Options**

Cyprus law allows for parallel registration of vessels. Parallel registration is essentially a mechanism whereby the nationality of a vessel under bareboat charter is suspended for a period of time and during that period the vessel is registered under a different flag. There are two forms of parallel registration, parallel-in and parallel-out. Both these are internationally accepted forms of bareboat registration. The Registrar of Ships maintains a Special Book of Parallel Registration of the Cyprus Register. For parallel registration to be possible, the law of the foreign registry must be compatible with Cyprus. Today it is possible to effect parallel (bareboat) registration with more than 20 other states. Parallel registration is often used in shipping transactions involving leaseback and hire-purchase financing arrangements. The provisions regarding age limits as set out above also apply.

### **Parallel-in Registration**

Parallel-in registration allows for a foreign flag vessel on bareboat charter to a Cyprus shipping company to be registered in parallel under the Cyprus flag. Parallel registration is subject to the prior approval of the Ministry of Communications and Works. It is effective for a period of 2 years, this period being renewable.

The vessel is not deleted from the foreign register but, rather, that registration is suspended for the duration of the parallel-in registration. The foreign registry is operative only with respect to the ownership and encumbrance's status of the vessel.

### **Application and Documentation**

The bareboat chartered will apply for the parallel-in registration. The Charterer must be a person (physical or legal) who is qualified under Cyprus law to own a Cyprus ship. The following documents are required:

- Application to the Ministry of Communications and Works through the Registrar of Cyprus Ships requesting the parallel registration of the vessel. The application must be filed by a local lawyer acting on behalf of the bareboat charterer;





- if the bareboat charterer is a company rather than a physical person, copies of its memorandum and articles of association, certificate of incorporation, list of shareholders and directors, resolutions of the shareholders and directors authorizing the parallel-in registration of the vessel and, if a third person is to attend registration matters, the original of the power of attorney authorising that person;
- memorandum of appointment of ship's husband;
- certificate of measurement of the vessel;
- certified copy of the bareboat charter;
- certified written consent of the owner for the parallel-in registration;
- certified written consent of the mortgages, if any;
- written consent of the foreign registry with an official translation, if required;
- certificate of encumbrances from the foreign registry;
- crew list;
- application for license to install and work a wireless telegraphy and/or telephony station on board the vessel;
- confirmation of class from the head office of a recognized classification society;
- confirmation from a recognized radio traffic accounting authority that they will settle the ship's radio maritime accounts; and
- Confirmation from the master or from a recognized classification society as to the marking of the vessel. On registration, the Registrar will issue a Certificate of Cyprus Registry.

#### **Tonnage and Name of Vessel**

No new measurement for the tonnage of the vessel is required. The tonnage and survey certificates are issued on the basis of the corresponding documents of the foreign registry. The vessel may keep her name provided that no other ship on the Cyprus Registry is using the same name. However, the ship may change her name under the same rules applicable for provisional and permanent registrations. An application for the change of name is made by the bareboat charterer with the written consent of the ship-owner and any mortgages. The change must be notified to the foreign registry.





### **Status of Vessel**

Vessels under parallel-in registration must hoist the Cyprus flag and must not use the flag of the foreign registry.

The port of registry marked on the stern must be LIMASSOL (LEMESOS) and not that of the foreign registry. Any transfer or ownership of a vessel under parallel-in registration must be according to the law of the foreign, and not the Cyprus, registry. The transfer is only notified to the Cyprus Registrar for entry in the Cyprus Register of Ships. Mortgages can only be created by the ship-owner and in accordance with the laws of the foreign registry and the Cyprus registrar will, again, be notified. Except for matters of ownership and encumbrances, all other matters in relation to the vessel are governed by Cyprus law.

### **Termination of the Parallel-in Registration**

Termination can be effected in one of the following cases:

- the foreign registry revokes its consent for the parallel-in registration, or;
- the bareboat charter is terminated, or;
- the period of time for which the Ministry has approved the parallel-in registration has lapsed, or;
- If the vessel was provisionally or permanently registered, there would exist any reason for its deletion under Cyprus law. Upon termination of the parallel-in registration, the vessel will be deleted from the Special Book of Parallel Registration of the Cyprus Register.

### **Parallel-out Registration**

Cyprus ships may be bareboat chartered to a foreign person or company and be registered in parallel in a foreign registry for the duration of the charter. This is called parallel-out registration. As with parallel-in registration, the laws of the Cyprus and the foreign registry must be compatible. This kind of registration is available to ships whether provisionally or permanently registered on the Cyprus Registry. Again, the prior consent of the Ministry of Communications and Works is required.



Parallel-out registration allows for a ship to be mortgaged under the Cyprus flag while being registered in a foreign registry throughout the bareboat charter arrangement.

#### **Application and Documentation**

Applications for parallel-out registration must be submitted by the owner to the Registrar of Cyprus Ships. The following documents must be submitted:

- application for parallel-out registration made by a local lawyer;
- where the owner is a company, certified copies of the resolutions of the directors of the ship owning company resolving to bareboat charter the vessel and of the power of attorney if a third person is signing the bareboat charter on behalf of the owners;
- certified copy of the bareboat charter;
- certified written consent of the bareboat charterer to the parallel-out registration;
- original certificate of the Cyprus Registry;
- written consent of the foreign registry confirming that the law allows for parallel-out registration with an official translation;
- certified written consent of the mortgagees, if any;
- confirmation from a recognized radio traffic accounting authority that they will continue to settle the vessel's radio marine accounts; and
- common declaration by the ship-owner and the bareboat charterer undertaking that during the ship's parallel registration:
  - i) Cyprus law will be respected;
  - ii) The vessel will continue to meet the same requirements as regards compliance with international conventions even though the foreign state may not be a contracting party to those conventions;
  - iii) Any changes to the name or other particulars of the vessel will be promptly notified to the Registrar of Cyprus Ships; and
  - iv) The owner ensures that a certified copy of the certificate of parallel registration issued by the foreign registry will be deposited with the Registrar of Cyprus Ships within 1 month from the ship's parallel registration.





Upon payment of all the appropriate fees and once all the necessary documents have been filed, the Registrar may allow the parallel-out registration for a period up to 3 years. This may be renewed. The Cypriot nationality of the vessel is suspended and the Cyprus certificate of registration must be delivered to the Registrar of Cyprus Ships. Unless the Minister withdraws his

approval for the parallel-out registration or the foreign registry its consent, the parallel-out registration remains in force for the duration of the charter party. When the registration is terminated, the Cypriot certificate of registration is returned to the ship-owner.

#### **Status of Vessel**

Cypriot vessels registered parallel-out must hoist the flag of the foreign registry and cannot use the Cyprus flag. The port of registry marked on the stern of the vessel must be that of the foreign registry.

Same as with parallel-in registration, transfers of ownership and any transactions affecting mortgages are governed by Cyprus law. The Registrar will notify the foreign registry of any such changes. All other matters are dealt with by the foreign registry.

#### *Mortgages*

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Once a ship has been registered under the Cyprus flag, a mortgage can be created thereby securing a loan or other financial obligations. Exchange control permission is not required. The mortgage can be in respect of any sum and in any currency. A mortgage can be registered either through the Registrar of Ships directly or (with the Registrar's permission) through a Cyprus consulate or embassy abroad.

Where several mortgages are registered in respect of the same ship, priority depends on the date on which each mortgage was recorded in the Register, with earlier mortgages ranking first.





Every registered mortgagee has absolute power to dispose of the ship in enforcing his rights under the mortgage. In fact, it has always been the policy of the government to protect the rights of mortgages and make it as easy as possible for them to enforce their security. Where there are several registered mortgagees for the same ship, a later mortgagee may not, except by an order of a court of competent jurisdiction, sell the ship or share without the concurrence of every prior mortgagee.

#### **The Register of Cyprus Ships**

Once a mortgage is created, it must be deposited (together with its respective deed of covenant) with the Registrar of Cyprus Ships or with a consular officer on the instructions of the Registrar. The mortgage is recorded thereafter in the Register as from the date and hour of its deposit and remains an encumbrance on the vessel until discharged by the mortgagees. A mortgage may be created whether the ship is provisionally or permanently registered. The creation of a mortgage under Cypriot laws is not allowed on vessels registered parallel-in in the Cyprus Register of Ships.

If the ship on which a mortgage was created belongs to a Cypriot company, the mortgage will also have to be registered with the Registrar of Companies within a maximum period of 42 days after its creation. Registration protects the mortgagee's security in the case of liquidation of the ship owning company. Transfer of a mortgage may be effected by completing the statutory form of transfer and submitting it to the Registrar of Cyprus Ships or to a consular officer. The fees payable on transfer are the same as those for the registration of the mortgage on the ship.

#### **The Mortgage Deed**

The Cyprus mortgage is in the form of a Mortgage to secure an Account Current. It must be accompanied by a deed of covenant regulating all matters relating to the mortgage such as interest, repayment, insurances, events of default etc. Mortgage deeds are exempt from stamp duty.







To discharge a mortgage, a memorandum of discharge must be duly executed by the mortgagee. It is then attested and delivered to the Registrar of Cyprus Ships or a consular officer on the instructions of the Registrar.

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### *Managing of Cyprus Ships*

#### **Legislation**

The master of a Cypriot ship must enter into an employment agreement with the ship-owner. Also, every seaman on board must enter into an agreement with the master. The agreements are filed with the Director of the Department of Ports.

The manning of Cyprus flag vessels is regulated in accordance with internationally accepted standards, in line with the requirements of the IMO.

There is a Collective Agreement between the Trade Union of Cyprus and the Ship-owners Association. It regulates wages, matters relating to holidays, working hours etc. Where a Cyprus ship is owned by a Cyprus majority, the Collective Agreement is recognized by the International Transport Federation. In addition, Cyprus has entered into bilateral agreements with a number of countries regulating the employment of qualified seamen on Cypriot vessels.

#### **Certificates of Competency and Ratings**

Officers and ratings serving on board Cyprus flag vessels must hold valid Certificates of Competency and/or training documentation for the post they hold on board. These can be issued either by the Cyprus government or a country whose certificates are recognized by the Cyprus government. In the latter case, those officers are required to hold in addition to their non-Cyprus certificate of competency, a Cyprus endorsement attesting the recognition of their certificate. Certificates of Competency issued by Cyprus are widely recognized worldwide.





### **Nationality of Crew**

Cyprus merchant shipping legislation stipulates that 15% of the crew of a Cypriot ship must be Cypriot. In the case of passenger ships over 15 years of age, at least 25% of the crew must be Cypriot. In addition at least 1 Cypriot student or graduate of a marine officer's school, if available, must be engaged on the vessel for a period of up to 6 months for sea going training. These quotas however can be waived if the District Labour Office in Limassol confirms there are no unemployed seamen.

In effect, due to the limited availability of Cypriot seamen, crew members may be of any nationality so long as they hold valid certificates of competency. In any case, this restriction was repealed upon accession of Cyprus to EU on 1 May 2004.

To facilitate the manning of Cypriot ships, the government has concluded a number of bilateral agreements in the field of merchant shipping with labour supplying countries. They contain provisions for the employment on Cypriot ships of properly qualified seamen from these countries. The terms of employment of these seamen are those approved by the competent authorities and / or seamen's unions of their country.

### **Safe Manning Certificate**

All Cyprus ships should be in possession of a valid document of safe manning specifying the number and composition of her complement. Owners of Cypriot ships should apply to the Department of Merchant Shipping requesting the issue of the document.

The owner can apply for reduced manning if the vessel is designed and constructed with unattended machinery spaces, or is provided with any other automated machinery or remote controls. These should be indicated in the application and the owner should request the vessel's classification society to advise the Department on these, including the corresponding class notation and confirm the class position of the vessel, as far as this notation is concerned.





If the vessel is to be engaged exclusively in trading in a particular geographical area and the owner seeks reduced manning on account of this, then he should indicate it by stating the ports from which the vessel will be plying or provide the geographical co-ordinates (latitude and longitude) and other appropriate information defining the geographical area in which the vessel will be sailing or submit an appropriately marked chart.

If special circumstances apply, the owner may apply to the Minister of Communications and Works for dispensation from all the provisions of the manning regulations.

### *Fees and Taxes*

Cyprus is considered one of the most competitive shipping centers in the world in terms of costs.

The following fees are correct as at April 2004 and are expressed in Cyprus Pounds (CY£1 = 100 cents).

#### **Registration Fees**

The registration fees are as follows:

- For vessels other than passenger vessels:

<b>Gross Tonnage</b>	<b>Cents</b>
For each unit up to 5.000	10
For each additional unit between 5.001-10.000	8
For each additional unit over 10.000	4

The minimum fee is CY£125 and the maximum fee is CY£3.000





- For passenger ships:

Gross Tonnage	Cents
For each unit	15

The minimum fee is CY£250

No fee is payable for deletion of ships. However, all other statutory fees and taxes due or in arrears at the time of the vessel's deletion must be paid.

#### Corporation Tax

##### Cyprus Companies

Cyprus offers complete tax exemption on all profits and dividends arising from shipping operations. This particular tax relief will be available until 31 December, 2020. In effect, this means that:

- no income tax is payable on the profits derived from shipping activities by a Cyprus shipping company which own or bareboat charters ships under the Cyprus flag;
- no capital gains tax is payable on the sale or transfer of a ship or shares in a Shipping Company;
- no income tax is payable on the salaries of officers and crew of Cyprus ships which operate in international waters; and
- No stamp duty is payable on bills of sale and mortgages on ships and related documents.

##### Foreign companies

Foreign companies that generate profits from shipping activities of vessels under foreign flags are liable to corporation tax at the preferential rate of 4,25%. This rate will apply until the end of 2005. From 1 January, 2006 the normal rate will be applicable which is currently 10%.





**Tonnage Tax**

**For Vessels Other Than Passenger Ships**

Tonnage tax is calculated as follows:

$$\text{Tonnage tax} = (\text{Basic charge} + \text{Gross tonnage increment}) \times \text{Age multiplier}$$

The basic charge is CY£100 and the gross tonnage increment is calculated as follows:

Gross Tonnage	Cents
For each unit up to 1.600	26
For each additional unit between 1.601-10.000	16
For each additional unit between 10.001-50.000	6
For each additional unit over 50.000	4

The age multiplier is shown below:

Age*	Ship Rate Multiplier
Up to 10 years	0,75
11-20 years	1,00
Over 20 years	1,30

\*This is calculated by taking the year in which the keel was laid and then deducting it from the year of assessment of the tonnage tax.

**For Passenger Ships**

The tonnage tax payable is double that payable for other vessels.





### Payment

Tonnage tax is payable in biannual instalments, on 1 January and 1 July each year, and in advance not later than the 31 January and 31 July each year. Late payment results in a 5% surcharge or the first month in arrears and 1% for each subsequent month. In case of deletion of a vessel from the Register of Cyprus Ships, any tonnage tax paid in advance for the remaining period up to the date on which the next instalment becomes due is refunded.

### Reduction of Tonnage Tax

The Merchant Shipping Laws provide for the reduction and refund of tonnage tax in the cases listed below.

### Technical Management and Crewing by Cyprus Companies

If the vessel's technical management and crewing is carried out by a Cyprus ship management company operating in Cyprus, a 30% reduction of the tonnage tax is allowed provided the relevant documentary evidence is submitted to the Department of Merchant Shipping in advance of the period for which the reduction is claimed.

- Cypriot crew members. For members of the crew of the vessel who are Cypriot citizens, a percentage of the tonnage tax paid may be refunded for each month they are employed on board the vessel, as follows:
  - i) - for vessels other than passenger ships, 2,5% for each month of actual employment on board in respect of officers and cadet officers, and 1,5% for each month of actual employment on board in respect of ratings;
  - ii) - In the case of passenger ships the above rates are reduced by 50%.

Tonnage tax is refunded on the application of the owner of the vessel.

- Laid up ships. If the ship is laid up for a period of more than 3 consecutive months the tonnage tax payable is reduced by 75% for the period during which the vessel is laid-up. The maximum reduction or refund of tonnage tax described above cannot exceed 50% of the tonnage tax due for the financial year.





### Fees for Registration, Transfers and Discharge of Mortgages

For the registration or transfer of a mortgage or transfer of interest in a mortgage with the Registrar of Ships, the fees payable are calculated as follows:

Gross Tonnage	Cents
For each unit up to 10.000	2
For each additional unit over 10.000	1
The minimum fee is CY£30.	

No fee is payable for the discharge of mortgages.

### Other Fees

Examination of an application for the registration of a vessel in the Register of Cyprus Ships. CY£15 Examination of an application for change of the vessel's name. CY£15 Approval of the change of the vessel's name. CY£80 Issue of a provisional certificate of registry or a certificate of registry. CY£10 Granting of ship's carving and marking note. CY£10 Issue of transcript of registry. CY£10

There are some further minor fees payable for various other services or for the issue of certain certificates.

### Fees and Charges Payable on Provisional Registration

#### On provisional registration

The following fees and taxes are payable at the time of the provisional registration of a vessel:

- registration fees;
- tonnage tax for 6 months;
- fees for obtaining a license to install and work a wireless telegraphy and/or telephony station, and;
- fee for the issue of the provisional certificate of Cyprus Registry





These should be paid not later than the date on which the provisional registration of the vessel will be effected.

#### **On Extension**

To extend the period of provisional registration by 3 months, the following fees and taxes are payable:

- one half of the registration fees, and
- Tonnage tax for 3 months.

These should be paid prior to the expiry date of the period of provisional registration.

#### **Fees and Taxes Payable on Permanent Registration**

If the relevant registration fees have been paid at the time of the provisional registration of the vessel and the period of provisional registration has not expired, then no other fees and taxes are levied for the permanent registration of a vessel apart from:

- Fee for the issue of the certificate of Cyprus Registry, and
- Payment of any other statutory fees and taxes due or in arrears at the time of the permanent registration of the vessel.

If the permanent registration takes place after the provisional registration period has expired, then the fees payable on provisional registration are payable anew.

#### **Fees and Taxes Payable on Parallel Registration**

The initial registration fees for the parallel registration of a foreign vessel under the Cyprus flag (parallel-in registration) are 20% higher than those applicable to the provisional or permanent registration of the vessel. If the foreign vessel under the Cyprus flag is deleted and thereafter re-registered and the chartering is effected to the benefit of the same charterer prior to the deletion, the re-registration fees are reduced by 50%. There is no increase in the tonnage tax or other dues payable and the vessel is subject to the same financial obligations as other Cypriot vessels.







A Cypriot vessel registered in parallel in a foreign register (parallel-out registration) has the same financial obligations as all other Cypriot vessels, with the exception of the fees for the issue or renewal of the radio licence. If the vessel is deleted from the Cyprus Registry prior to the termination of her status of parallel-out registration, that part of the tonnage tax which is proportional to the period from her deletion until the termination of her status of parallel registration is reimbursed upon application.

The financial obligations of vessels (Cypriot and foreign) registered in parallel are payable in advance for the entire period of the parallel (bareboat) registration.

#### **Fees and Taxes Payable Annually**

The following fees and taxes are payable each year:

- Tonnage tax, and;
- Fees for the renewal of the licence to install and work a wireless telegraphy and/or telephony station.

#### **Taxation of Cypriot Ship Management Companies**

The main elements of the taxation regime of Cyprus ship management companies are:

- The taxation regime applies to companies engaged in the 3 basic types of internationally accepted ship management services, i.e. crewing, technical and commercial management of ships;
- Notwithstanding the provisions of the income tax laws in force, no tax is charged on the income derived by any person from the rendering of ship management services for the period ending 31 December, 2020;
- To counteract the above tax exemption, a special tax is charged on the basis of the tonnage of ships for which ship management services have been rendered. This special tax is applicable to any ship managed by a Cypriot ship manager (whether of Cyprus or foreign flag). It is calculated by reference to the Second Schedule of the Merchant Shipping (Fees and Taxing Provisions) Laws 1992-2003. This tax is not applicable in the case of Cypriot ships that qualify for the 30% reduction described in paragraph 9.4(a) above.





- For any given financial year, a ship management company may opt to be taxed either according to the special tax method or according to the rates provided by the current income tax laws in force. This option is exercised by informing in writing, the Department of Merchant Shipping with a copy to the Commissioner of Income Tax. The notice must be filed at least 30 days prior to 1 January of the relevant financial year, and will remain in force until its withdrawal by the same procedure;
- There is an exemption from income tax on the dividends received from the rendering of ship management services.

#### *Future Prospects*

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Cyprus' development into a major base of international maritime operations and the phenomenal growth of its Merchant Shipping Registry, currently ranking 5th in the list of leading maritime nations as opposed to 29th just ten years ago, it is by no means accidental.

The immediate objective of the island with regard to merchant shipping is to enhance the quality of the tonnage flying the Cypriot flag, their crews and operators. The Cypriot government has taken steps significantly to strengthen and reorganise its maritime administration, which has come under strain in recent years as a result of the exceptional fleet growth and increasing international safety and pollution prevention requirements.

With regard to the International Safety Management Code, introduced as a new chapter of SOLAS 74, the government has already decided to proceed with its early implementation. The criteria set out by the International Maritime organization and the European Union for the assignment of tasks to non-governmental organizations has been adopted. Further, the government has decided to authorize recognised Classification Societies and members of the International Association of Classification Societies to conduct audits and issue certain certificates.

The Cypriot authorities have become increasingly pro-active in their promotion of the shipping industry. Their efforts have turned the Cypriot flag from one of convenience to one of necessity.





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### *Who to Contact*

**Christodoulos Vassiliades**

Christodoulos Vassiliades is an Attorney-at-Law practising in the fields of corporate law, trust law, banking, tax law, shipping law and other commercial matters. He has extensive experience in the use of Cyprus Offshore Companies, double tax treaties and international tax planning.

Tel: +357 22 55 66 66

Fax: +357 22 55 67 67

E-mail: [cyprus@ocra.com](mailto:cyprus@ocra.com)





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